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Assignment No. AF2002/21/1

11 June 2002

To: Mr. John Chien, Chief Administrative Officer
UNOHCIFrom: 
Jayanthi Prasad, Chief Resident Auditor
UNOHCI
Internal Audit Division, OIOS

Subject: Procurement in UNOHCI

The recommendations set out below are submitted for your consideration. Please comment on them and, where appropriate, specify the corrective action taken or provide a planned implementation schedule. When commenting please refer to the Assignment No. listed above and to the recommendation number in parenthesis in order to facilitate monitoring of its status (timely response, acceptance, implementation). Please reply by 11 July 2002.

Audit Observations and Recommendations**Introduction**

1. The Chief Procurement Officer, under the overall supervision of the Chief Administrative Officer (CAO) of UNOHCI, in Baghdad, carries out procurement activities for UNOHCI. The financial authority delegated to UNOHCI for the purpose is \$200,000.
2. In addition to observing the Financial Regulations and Rules of the UN, UNOHCI requires an import clearance/approval for all international procurement from the Security Council 661 Committee. Furthermore, approval of MOFA, Iraq is needed before goods can be imported into the country. These two requirements, make procurement activities (international) in UNOHCI unique.
3. We found that no delegation of financial authority is made to the Deputy CAO in North Iraq, where major operations of UNOHCI are carried out.

We recommend that with the coming in of a procurement officer in North Iraq, the Deputy CAO be delegated a substantial procurement/financial authority, say up to \$70,000 (AF02/21/1/101).

4. During the period January 2001 to December 2001, the procurement statistics of UNOHCI were as follows:

Table 1: Procurement Statistics of UNOHCI

	In thousands USD		
	Goods	Services	Total
UNOHCI Local Proc	702.1	1397.4	2099.5
UNOHCI International Proc	3121.1	59.2	3180.3
Subtotal	3823.2	1456.6	5279.8
Proc. Done UNHQ			2978.7
Grand Totals	7646.4	2913.2	8258.6

5. The total number of Purchase Orders (POs) issued by UNOHCI during the year was 630. The total number of Local Committee on Contracts (LCC) cases during the year were 17, with a total value of \$1,506,700. There was no HCC submission during the year. In comparison, during 2000, only 273 POs a totalling \$1,043,852.96 were issued by UNOHCI.
6. We analyzed 520 POs issued in 2001 with a total value of \$4,277,564.50, to ascertain the procurement activities, in different value stratum. The analysis revealed the following:

Table 2: POs in different Value Stratum

Value Range (\$)	Number of Purchase Orders
<2,000	184
2-5,000	150
5-10,000	77
10-20,000	56
20-50,000	44
>50,000	9
Total	520

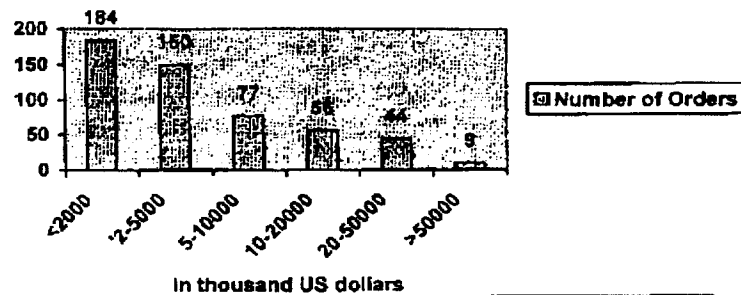


Figure 1: Number of POs in different value ranges

7. It can be seen that approximately 36 per cent of the orders were below \$2,000, in value. The orders below \$5,000 accounted for 64 per cent of the orders in terms of numbers. Having a large number of small orders could be indicative of poor planning/splitting of POs, leading to avoidable repetitive efforts in procurement activities.

8. The Procurement Manual (paragraph 6.15) states that requisitions of similar items should be consolidated at the procurement stage. Audit scrutiny of relevant procurement records, however, revealed that such a consolidation was not done by the Procurement Section. This is further indicated by the existence of a large number of small repetitive POs.

We recommend that UNOHCI issue an Administrative instruction reiterating the provisions of the Procurement Manual regarding consolidation of requisitions at procurement stage. This would enable

UNOHCI to improve efficiency of procurement activities and avoid wastage of resources. (AF02/21/1/102).

Distribution of Expenditure

9. Activities in a well-planned procurement system, should be as uniform as possible, over a period of time. To evaluate the procurement process on this criterion, we calculated the 2001 monthly expenditures and the number of orders issued during each month, for a sample of 515 orders. The results of this analysis are depicted in the following table:

Table 3: Month-wise expenditure

Month	Number of POs	Percentage	Value of Orders in dollars	Percentage
Jan.	22	4.27%	149,434.58	3.73%
Feb.	50	9.71%	314,064.82	7.84%
March	41	7.96%	147,633.74	3.69%
Apr.	30	5.83%	207,510.99	5.18%
May	43	8.35%	189,305.22	4.73%
June	41	7.96%	327,145.11	8.17%
July	55	10.68%	470,415.32	11.75%
Aug.	38	7.38%	296,993.86	7.42%
Sep.	25	4.85%	91,400.00	2.28%
Oct.	28	5.44%	140,664.01	3.51%
Nov.	31	6.02%	192,543.36	4.81%
Dec.	111	21.55%	1,476,709.66	36.88%
Total	515		4,003,820.67	

2001 Expenditure trend

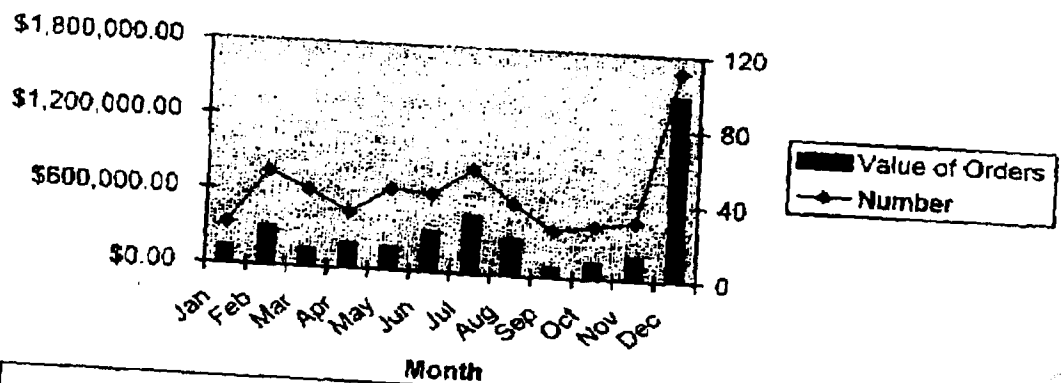


Figure 2: Month wise Procurement Activity

10. Table 3 and Figure 2 show that procurement activities in December showed an abnormal jump with 36 per cent of the funds being obligated and 21 per cent of the POs issued in that month. This indicates that procurement activities (requisitioning and procurement), were being held back till the end of the financial period. The rush of expenditure at the fag end of the year should be avoided, since it is suggestive of procurement action being done with the primary objective of obligating/blocking the funds. At the same time, the Procurement Section's work became highly seasonal in nature, which had an adverse impact on the functioning of the various controls in the procurement process, since resources are stretched. This, in our opinion is an indicator of sub-optimal planning in the procurement cycle.

We recommend that the Chief Procurement Officer, in consultation with all requisitioners, prepare a procurement plan for the entire year, which should indicate the tentative expenditures for every month. The plan should then form the basis of targeted procurement activity and the funds obligated every month should be compared with this plan, in order to correct large variations (AF02/21/1/103).

Requisitioning Process

11. Requisitioning is the first step of the procurement process. Paragraph 4.04 of the Procurement Manual deals with requisitioning supplies, equipment and services. Certifying Officers are required to authorize requisitions as per the guidelines and authorized requisitions are taken as "established needs" and "availability of funds", for the same. Regarding 'specifications' for items, the Procurement Manual (paragraph 4.04.03) states "The specifications should be generic in nature in order to facilitate fair competition for the goods and services being acquired. Specifications shall not specify brand names, products of one company or features which are particular to the products of one company,...."

12. Thus, the intent of the above is that the certifying officer shall be responsible for needs as well as funds and not influence/constrain the procurement decisions. Furthermore, the Procurement Manual (paragraph 4.04.03 (d)) requires that the requisitioner should consolidate his requirement as far as possible.

13. Audit scrutiny of relevant records revealed the following irregularities/weaknesses:

- The format of requisitions in UNOHCI had a column indicating the likely vendor of the product. Since in these cases the 'Requisitioner' certifies the need, indicates whom to buy it from and later utilize the goods also, we are of the opinion that, asking the 'Requisitioner' to indicate a seller, is contrary to the procurement Manual rules and is contradicting to the internal control mechanism of segregation of duties.
- In a few cases (mostly of EDP procurement), the exact manufacturer, brand and even model number were specified for generic products like scanner, printer, and RDBMS software. We are of the opinion that specifying the exact brand/model of the product has led to a lack of competition in the procurement process.
- In some cases, the procurement was held up/delayed after requisition had been issued, since funds could not be obligated, due to lack of the same. We are of the view that this could have been avoided, if the instructions in the Procurement Manual had been followed. For example, in the case of a purchase of NERA phones (PO Number 20010257), the first requisition raised in 2000 indicated a price of \$160 against a realistic price of \$160,000. This was done, as the requisitioner, CCITS later clarified, to start the procurement process and not hold it for want of budget. In this case, the budget could not be obtained before the end of the year and consequently the request had to be cancelled and was revived in the next year.
- Numerous instances were found for repeated requisitions of similar related items. This led to several POs being processed by the Procurement Section, for the same or related items. Since the budget allocations were made on the basis of expressed needs, we feel that this was avoidable and that such orders should have been consolidated.

We recommend that UNOHCI:

- (i) Modify the existing format of requisitions and eliminate the indication of vendor by the requisitioner . (AF02/21/1/104);

- (ii) Issue administrative instructions to all requisitioners to refrain from indicating manufactures/vendors/model for generic products. In cases, where the same is necessary due to reasons of the item being a proprietary item or standardization instructions issued by UNHQ or other justifiable reasons in the opinion of the certifying officer, an express certificate to the effect should be kept on record (AF02/21/1/105);
- (iii) Issue instructions to Certifying Officers that they should ensure availability of funds before requisitioning goods and modify the format of requisition to include a certificate to the effect that the availability of the funds is ensured,(AF02/21/1/106); and
- (iv) Establish a formal link, between budget and requisitions needs in order to ensure that requisitions procure all of the items as budgeted as far as practicable.(AF02/21/1/107).

Bid Request, Receipt and Processing thereof

14. As stated in paragraph 6.14 of the Procurement Manual, receipt of bids through fax should be resorted to exceptionally, where lead-time is critical. It further states that "Special precautions shall be taken to safeguard the confidentiality of all the bids and proposal received until the official opening time. The facsimile number to be given for this purpose shall be dedicated and located in a locked room."

15. Furthermore, the bids received are to be treated as confidential and their accounting till final disposal, is vital to the procurement process. The Procurement Manual (paragraphs 7.02.01) states that "all bids and proposals received are to be time/date stamped and placed in a locked container, such as a cabinet or safe, until the bid opening time and date.

16. Regarding "Opening of bids", United Nations Financial Rule 110.20 states "All bids shall be publicly opened at the time, date and place specified in the invitation to bid and an immediate record made thereof." Furthermore, the Procurement Manual (paragraph 7.03.01) states that all bids shall be opened publicly at the time and place

specified in the invitation to bid (ITB). All bids received are to be listed along with an abstract made of bids received. Suppliers submitting bids may attend bid openings.

17. Scrutiny of relevant records revealed the following irregularities/weaknesses:

- Fax was the norm for sending RFQs and receiving bids for international procurement. The bids were sent from the common radio room and also received there and then forwarded to the Procurement Section/Finance Section (Chairman, Tender Opening Committee, (TOC)). In our opinion, this procedure lacks control to ensure confidentiality of RFQs/Bids and is also prone to tampering.
- In many instances (14 cases), bids were found lying in the bid box for a period up to 8 months. Even for the bids, which are not to be opened for reasons of delayed receipt, they should be removed from the bid box and kept in the concerned files in sealed condition. This indicates a serious flaw in the bid receipt and accounting system, as well as likely loss of opportunity, should few of these bids received in time be more economical, but not considered while awarding the PO/Contract.
- RFQs/ITBs were prepared indicating the date of receipt of ITBs and date of opening of the tenders. However, in many cases, 3 to 10 days was allowed for opening of bids after receipt of the same. We are of the opinion that the time allowed was too high and needs reduction/standardization. This would further reduce the possibility of mixing up of bids received for different ITBs, during a period.
- Signatures obtained at bid openings did not specify the name/designation of the persons opening the bids. Only taking the signatures without a stamp/seal has the effect of obliterating the audit trail.
- In one case, (Requisition No: COM20010055) when the bid box was opened there was just one bid found and the abstract was made, accordingly. After two weeks it was reported that some more bids relating to the same ITB were found in the bid box. They were also opened and included and one of them turned out to be the lowest bidder and awarded the PO. From an examination of the bid, it appeared to have been received in time, however, in our opinion the whole process revealed major flaws in the bid receipt process.

We recommend that LNOHCI:

- (i) Allow a maximum of two days for bid opening, after their receipt (AF02/21/1/108);
- (ii) Provide a dedicated fax machine with automatic sealing for the office of the Chairman, Tender Opening Committee. Furthermore, a tamper proof date/time-stamping machine should be used for marking bid receipt (AF02/21/1/109);
- (iii) Ensure that the signatures and the name/seals of the concerned officers be indicated on bid opening documents (AF02/21/1/110); and
- (iv) Establish procedures to ensure that bids which are kept in the bid box are duly accounted for at the time of opening the bid box (AF02/21/1/111).

Bid Analysis and Award

18. Received and opened bids are processed by the Procurement Section for award. The Procurement Manual (paragraph 4.04.03) states that technical specifications/description of scope of work in the requisition must be clear and sufficient to enable suppliers to compete fairly. However, due to the technical nature of items, changes in specifications etc. by the requisitioner, it may become necessary for the Procurement section, to ask the requisitioner to carry out a technical evaluation of the bids.

19. Regarding information to bidders, paragraph 8.19.02 of the Procurement Manual states that unsuccessful bidders should be informed of the results of the bidding exercises. The information should be limited to the: (a) name of the successful bidder, (b) value at which the award was made, and (c) basis of the award (e.g., whether the lowest bid or lowest acceptable bid, etc.). If the offer of the bidder making an inquiry was rejected for other than price, a brief reason for the rejection should be given.

20. Audit scrutiny of relevant records revealed that:

- In cases where a technical evaluation was sought, the entire bids along with the financial aspect/information were given to the Requisitioner. We are of the opinion that giving financial information at the time of technical evaluation interferes with segregation of duties.
- Intimation to the unsuccessful bidders was made in very few cases and even in those cases the information given was incomplete as information about "awardee", "value of award", "basis" etc. was not given. We are of the opinion that if the unsuccessful vendors are given complete information as prescribed in the Procurement Manual, it can work as a motivational tool in the hands of Procurement Section apart from making the procurement decisions more transparent and fair.

We recommend that UNOHCI:

- (i) Procurement Section should not reveal financial information when asking the requisitioners for a technical evaluation of bids, (AF02/21/1/112); and
- (ii) Institutionalize the practice of intimating unsuccessful bidders on the outcome of bidding exercises with complete information as prescribed in the Procurement Manual (AF02/21/1/113).

Functioning of Local Committee on Contracts:

21. As per the delegation of procurement authority to UNOHCI, the Local Committee on Contracts (LCC) was established in UNOHCI to render advice for procurement contracts of more than \$50,000 but less than \$200,000 awarded to a vendor in a year, in respect of a single requisition or a series of related requisitions.

22. This Committee, established under Financial Rule 110.17(f), was to be comprised of the Chief Finance Officer, Legal Advisor, Chief General Services and Chief Transport Officer or "those with comparable responsibilities". The LCC renders advice to the Chief Administrative Officer under Financial Rule 110.16.

23. Audit scrutiny of relevant records revealed that:

- The LCC constituted under this delegation has the Chief Communications Officer as the chairman of the LCC and Chief Transport Officer has been the alternate LCC Chairman. We also found that these two were also the two biggest requisitioners.
- In a few instances (LCC meeting number 5, 9 and 1,3,4), procurement cases of the Chief Communications and Informational Technology Section (CCITS) and Chief Transport Officer (CTO) were taken up when CCITS/CTO were Chairman of the LCC, respectively. In our opinion, having the requisitioner as the Chairman of the LCC, was against the internal control mechanism of segregation of duties.
- In the year 2001, 17 cases were submitted to the LCC for recommendation. The LCC rendered advise on all the cases it received. Very often, alternate members were designated, when regular members were on leave. This was also done for key officials such as the Legal Advisor, who were substituted with personnel from unrelated sections. Often, junior staff members not having comparable responsibilities participated in the LCC, in the absence of regular members (Section Chiefs). Since there are relatively few LCC cases in UNOHCI in a year, we are of the opinion that this was avoidable and that the cases could be scheduled taking into account the leave plans/official travel, etc. of LCC members.
- We noticed that in a few cases (Requisition nos. COM-20010003, TPT-20000080, 20000085) approval of 661 Committee, the approval of which is vendor and price specific, was obtained prior to submission to the LCC. We are of the opinion that such actions were in violation of the functions of LCC (as LCC approval was taken for granted in these cases), and could have caused embarrassment to the UN, if these cases were subsequently rejected by the LCC.

We recommend that UNOHCI:

- (i) Designate as LCC chairman, an official who is not a major requisitioner like CFO, to ensure adequate segregation of duties.
(AF02/21/1/114);

- (ii) Ensure that if the case being deliberated upon pertains to the section of the LCC Chairman that the alternate chairman review it (AF02/21/1/115);
- (iii) Make efforts to arrange LCC meetings to ensure that it is held in the presence of key members, so that the requirement to appoint alternate members, often at a junior level, be eliminated (AF02/21/1/116); and
- (iv) Ensure that LCC review cases before submitting the procurement case for the approval of 661 Committee (AF02/21/1/117).

Vendor Management

24. Effective 'Vendor Management' is a critical procurement aspect. A good vendor management process helps in making the procurement process effective, efficient and economical. The Procurement Manual (paragraphs 5.01 to 5.16) lays down detailed guidelines for registration and evaluation of vendors.

25. The procurement section in UNOHCI has been adequately staffed only recently, so the formal process of vendor management is yet to start. We found cases where the Procurement Section reverted to the Requisitioner, to suggest a possible vendor. Efforts to register vendors, were non-existent, in UNOHCI.

26. The 'REALITY' system vendor database has 601 vendors. An analysis of the database revealed the following:-

- Twenty seven vendors (Annexure I) have either duplicate or triplicate vendor IDs. This can have serious implications, as the information based on this database, which includes PO awarded etc., can be misleading, when considering cases based on series of related orders/requisitions on a single vendor in a year.
- There was no linking of the vendors with the commodities they deal in. In the absence of such a linking the usefulness of the database is limited.
- There was no sharing of the vendor database with various other UN agencies operating in Iraq.

27. We analyzed 520 orders placed in the Year 2001, on the criterion of the vendor distribution. The analysis revealed the following:-

- 520 orders were dispersed over 213 vendors. We found that the top 20 vendors accounted for 55 per cent (by value) of the total procurement by UNOHCI. A country wise analysis of orders revealed that international procurement was made from 20 countries. Out of these four countries namely USA, UAE, UK and Denmark were awarded most of the orders, amounting to 60 per cent in terms of value. This is indicative of restrictive and monopolistic procurement practices.

We recommend that UNOHCI:

- (i) Lay down formal policy guidelines for vendor registration and evaluation and make efforts to expand its supplier roster. Furthermore, UNOHCI/UN may consider developing a web based registration process of vendors (AF02/21/1/118);
- (ii) Reconcile the vendor database to eliminate duplicate/triplicate vendor Ids and ensure that data entry procedure and relevant software is improved to ensure that a vendor cannot be allocated more than one ID (AF02/21/1/119);
- (iii) Link the supplier roster to the commodities they supply for quick identification of vendors (AF02/21/1/120); and
- (iv) Consider obtaining 'Supplier Roster' maintained by UNHQ and other UN agencies in Iraq to expand its database. (AF02/21/1/121).

Lead times in Procurement

28. Timeliness of procurement action has a major impact on its efficiency and effectiveness. We analyzed the time taken in various stages of procurement in UNOHCI with emphasis on internal/external factors.

29. A statistical Analysis of 56 POs issued during the year 2001, revealed that average time-periods in various phases of procurement processes were as follows:

Table 4: Time in various Stages of Procurement

Description of Stage		Number of Days
Stage I	Time to call for Bids	12
Stage II	Time to initiate 661 Committee's approval, after calling for bids analysis/LCC etc.	45
Stage III	Time to receive 661 approvals after Request	53
Stage IV	Time to issue POs after 661 Committee's approval	23
Stage V	Time to receipt of goods after issue of PO	95
Total		228

30. Statistical attributes of the various stages in procurement cycle, were as follows :

Table 5: Statistical measures of Stages in Procurement Cycle

Stage	I	II	III	IV	V	Total
Average	12	45	53	23	95	228
Minimum	0	12	7	2	11	112
Maximum	55	146	199	210	206	396
Standard Deviation	11	28	27	48	43	72

Note 1: All figures in days

31. Thus, for the selected sample the procurement cycle takes about 228 days to complete. Out of this, external lead-time (time taken in taking 661 Committee's approvals, MOFA clearance and delivery of goods) is about 147 days, which comprises 56 days, on an average for 661 Committee approval.

32. The balance time of 81 days, is the internal lead-time of the Procurement Section. Out of this, as much as 44 days are taken for bid analysis etc., after receipt of bids, which in our opinion is excessive.

33. While the above are average figures, in a few cases we observed internal delays of up to 18 months by the Procurement Section to initiate RFQ/ITB after having received a requisition.

We recommend that UNOHCI make efforts to get blanket approval from the 661 Committee, especially for repetitive and purchase of same/similar items in order to improve the procurement efficiency. This is more relevant now after the coming into being of the new SCR 1409 (AF02/21/1/122).

Need to take advance clearance from MOFA:

34. The procurement cycle as observed in our examination comprises seven broad stages as below:

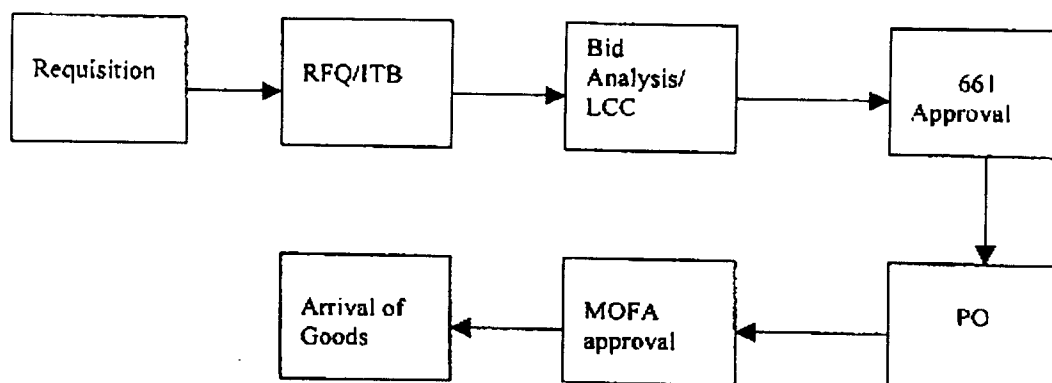


Figure 3: Observed Procurement Cycle

35. We are of the view that seeking MOFA approval after 661-Committee approval risks of causing embarrassment to the UN, should MOFA reject the case later, as actually happened in a case discussed below.

36. The request for procurement of NERA satellite phones for UNOHCI vehicles was first initiated in 2000. The case could not be processed for lack of funds in that year. The case was again processed in 2001 and 661 Committee approval was obtained prior to the case being submitted to the LCC. A PO was sent to the vendor on 14th June 2001 (PO number 20010257). However, the required MOFA approval for import was refused and consequently the PO had to be cancelled. Though the order could be cancelled in time, without any additional liability in terms of claims against the UN by the vendor, the case reveals the risk associated in refusal for import of an item by MOFA at a later date. In

this case, procurement efforts was wasted twice once when the case had to be closed due to lack of funds and then due to refusal by MOFA.

37. In our opinion the risk in this process, could be minimized by UNOHCI modifying its procurement process as shown in the flow chart below. Parallel processing by MOFA would shorten the procurement time substantially, and also eliminate possible embarrassment to the UN by way of getting 661 Committee approval and then not acting upon it. This would also eliminate the risk of additional liabilities due to claims from vendors as a result of cancelled POs.

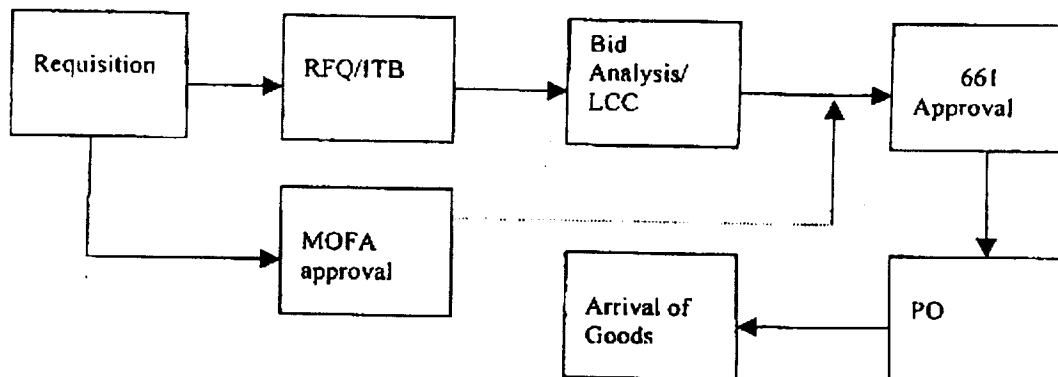


Figure 4: Recommended Procurement Cycle

We recommend that UNOHCI seek MOFA approval for purchases immediately after the receipt of requisition and before submitting for 661 Committee approval in order to shorten the procurement period. (AF02/21/1/123).

Procurement on behalf of UNGCI

38. UNOHCI is responsible for making procurement on behalf of UNGCI. Unlike procurements for UNOHCI, which is charged to SCR 986 funds, the procurement for UNGCI is done from UN trust fund.

39. We found that on one occasion when procurement of vehicles and spare parts were processed together for UNOHCI and UNGCI, approval of 661 Committee was given in the same document/format for both purchases. The fact that for the UNGCI

vehicles, the payment will be made from a different account was omitted (Comm 1020109 of Security Council committee clearance resulting in MOFA, Iraq raising some concerns. It then became necessary to seek 661 Committee approval again leading to avoidable delays.

We recommend that UNOHCI improve procedures with the 661 Committee in order to ensure that separate approvals are received for procurements on behalf of UNGCI with specific mention of the source of funds (AF02/21/1/124).

Procurement: CIF Amman Vs CIF Baghdad

40. International procurement done by UNOHCI is being done CIF Amman. After that, UNOHCI arranges the necessary clearances and transports the goods to Iraq through an Agent, in Amman. For this purpose, a contract has been entered into with a freight forwarding company in Jordan. Receipt and Inspection (R&I) teams often visit Amman and give the R&I report, on the basis of which, payments are released to the supplier.

41. In our view, this arrangement entails additional responsibilities, liabilities and risk. If procurement was CIF, Baghdad, it would transfer the liability of damage/shortages of goods occurring in transit from Amman to Baghdad to the Vendor.

We recommend that UNOHCI explore the feasibility of procuring goods CIF Baghdad. In the RFQs/ITBs quotes should be obtained for both destinations (CIF), to explore the feasibility and economy of this option. (AF02/21/1/125).

Absence of penalty provisions in Purchase Orders for delayed deliveries.

42. Much of the procurements in UNOHCI is made to meet urgent operational requirements. Delay in procurement, thus has an impact on the over all operational effectiveness of the mission. In UNOHCI, there are in any case, specific requirements like 661 Committee approvals and MOFA's approval which adds to the time cycle of procurement.

43. Therefore, in our opinion, it is imperative to ensure that the suppliers do not exceed the permissible delivery time as specified in the POs. However, UNOHCI's POs

contain no penalty provisions which would bind the supplier for timely delivery. Furthermore, since the supplier supplies the goods to Amman, the UNOHCI database did not indicate if the supplier met the time frame specified in the PO.

We recommend that UNOHCI:

- (i) Include a penalty clause for delayed delivery in the PO (AF02/21/1/126); and
- (ii) Prepare a report showing the time taken by the supplier in supplying the goods and use it for vendor performance evaluations. (AF02/21/1/127).

Non-consolidation of requisitions and inadequate procurement planning/possible splitting of Purchase Orders

44. Procurement of related items should be consolidated to the extent possible to increase the efficiency of procurement. In this regard paragraph 4.04.03 (d) of the Procurement Manual states that "Requisitions should be consolidated by line and type, as far as possible."

45. We found numerous instances (An illustrative list is given in the Annexure II) of related items being procured from the same vendor through multiple POs issued and sometimes even on same day or in an interval of a few days. Issuing different purchase orders for these cases meant that there was avoidable duplication of procurement efforts. Furthermore, this splitting of POs also meant that procurement cases did not go to appropriate level of scrutiny like LCC/HCC resulting in prescribed financial limits being exceeded.

We recommend that UNOHCI:

- (i) Review the orders placed for related items on the same vendor and seek ex-post-facto approval of the LCC, where necessary. (AF02/21/1/128); and

- (ii) Re-issue instructions to all requisitioners requiring them to consolidate their requirements in accordance with good procurement planning practices (AF02/21/1/129).

Inconsistency in internal records

46. The procurement database is maintained using the 'Reality software'. However, we found that there was another software in 'Access' in which procurement related data was separately captured and was being used for 'MIS' reporting purposes. The data maintained in 'Reality' did not agree with the data in Access. Scrutiny of the databases revealed the following:

- The file Reality.xls given to us on 4th April had details of 520 purchase orders, where as in the file name Procurement Statistical report for the year 2001, there were details of 620 POs. We also found that the PO values varied between the two databases. A sample check of PO files revealed that this difference was probably due to 'Freight and Insurance' being included in one database and excluded from the other.
- Discussion with the staff member responsible for maintaining the database in 'Access' indicated that input to the two systems were separate and there was no reconciliation between the two.

47. We are of the opinion that having two databases separately maintained and managed without a process of synchronization between the two can lead to erroneous reporting, with a risk of incorrect management decisions being made.

We recommend that UNOHCI:

- (i) Reconcile the data in the 'Access' system with the 'Reality' system data on a periodic basis to ensure that the two databases are in synchronization with each other and are not leading to incorrect reporting (AF02/21/1/130); and
- (ii) Linking the 'Reality' tables to the 'Access' application instead of creating separate 'Access' tables in order to synchronize the data. (AF02/21/1/131).

Procurement of computers

48. As discussed earlier, UNOHCI procurements undergo two approvals/clearances, namely by 661 committee and by MOFA. The discussions with CPO and CCITS indicated that clearance from MOFA for import of computers was difficult and time consuming and that the computers were generally procured by UN Headquarters. Due to these difficulties computers had been assembled by ordering CPUs, motherboards, cards, hard disks, cabinets, etc. through different POs.

49. While we agree that local procurement is faster and may be an economical option, doing so, in this manner is improper. In our view, it would be better to procure the items as complete items with the approval of 661 Committee/permission of Headquarters' Procurement Division.

We recommend that UNOHCI approach UN Headquarters (PD) setting out the constraints it faces in procuring computers and seek approval to procure them locally (AF02/21/1/132).

Incomplete Files

50. After the R&I report is received, invoices are sent to the Finance Section for payment. The Finance Section prepares the Disbursement Voucher (DV) and makes the payment to the supplier. A copy of the DV should be sent to the Procurement Section to be kept in the PO file.

51. We found that though the request for sending a copy of DV was always made to the Finance Section, by the Procurement Section, in all cases that we checked it was not done, thus rendering the PO files incomplete. Furthermore, the fact that the proof of payment is not kept in the PO files renders the system prone to repetitive payments/overpayments, for same invoice.

We recommend that the Finance Section take appropriate steps to ensure that a copy of the DV is sent to the procurement section after disbursement (AF02/21/1/133).

Statement of Award not in proper format

52. United Nations Financial Rule 110.24 states that "Each determination or decision required of an authorized purchasing officer by the provisions of these Rules shall be supported by the written findings of such officer. These written findings shall be placed in the appropriate case file maintained by the responsible department or office."

53. However, we found that a formal 'Statement of Award' was not normally done. Since the "Statement of Award" brings out in a summarized abstract, the justification for the award to a particular vendor, in our opinion, it is a control that facilitates the management to draw assurance from the procurement process.

We recommend that the CPO ensure that a 'Statement of Award' is always prepared and kept in the PO files (AF02/21/1/134).

Receipt and Inspection

54. The Receiving and Inspection unit, under the General Services Section, carries out receiving and inspection functions. Their report then becomes the basis for payment to the supplier.

55. We found cases where receipt and inspection was carried out exclusively by the requisitioning section staff. Though the assistance of the requisitioner may sometimes be needed to carry out inspection work for technical reasons, doing so exclusively by the requisitioner, in our opinion, compromises the internal control mechanism of segregation of duty.

We recommend that UNOHCI ensure that the receipt and inspection work is carried out by the R&I Unit in all cases, though Requisitioner could be co-opted in some cases, where it is necessary (AF02/21/1/135).

56. We wish to express our appreciation for the assistance and co-operation extended to the Auditors by UNOHCI.

Cc:

Mr. Santipot Parnitudom, Chief Procurement Officer, UNOHCI, Baghdad

Mr. Tun Myat, Humanitarian Coordinator, UNOHCI, Baghdad

Mr. Hussein Al-Alfi, OIC (North), UNOHCI, Erbil

Mr. Paul Aghadjanian, Deputy CAO, UNOHCI, Erbil